



**800 MHz RECONFIGURATION
STATEMENT OF PROGRAM EXPENDITURES
DECEMBER 31, 2014**

Deloitte¹

1919 North Lynn Street
Arlington, VA 22209
T: 571.882.5000
Attention:
Brett Haan
bhaan@deloitte.com

Squire Patton Boggs (US) LLP

2550 M Street, N.W.
Washington, DC 20037
T: 202.626.6216
F: 202.626.6780
Attention:
Robert B. Kelly
robert.kelly@squirepb.com

Baseline Wireless Services, LLC

2770 Arapahoe Road., Suite 132-133
Lafayette, CO 80026
T: 303.444.1480
F: 888.361.0603
Attention:
Alan J. (Joe) Boyer
jboyer@baselinetelecom.com

¹ Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms. Please see www.deloitte.com/us/about for a detailed description of the legal structure of Deloitte LLP and its subsidiaries.

Table of Contents

Overview.....	4
Independent Auditor’s Report.....	5
Statement of Program Expenditures.....	7
Notes to the Statement of Program Expenditures.....	8
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.....	22

OVERVIEW

800 MHz Transition Administrator, LLC (“TA”)² provides to the Federal Communications Commission (“FCC”) the audited Statement of Program Expenditures, reporting funds expended in connection with the reconfiguration of the 800 MHz band for the year ended December 31, 2014 and during the period from August 6, 2004 (“Inception”) through December 31, 2014. Pursuant to the FCC’s *Reconfiguration Orders*,³ the TA, as the manager of the reconfiguration effort, is required to submit on an annual basis an audited statement of reconfiguration funds expended, including salaries and expenses of the TA.⁴

² 800 MHz Transition Administrator, LLC is the Transition Administrator for the reconfiguration of the 800 MHz band as mandated by the FCC. 800 MHz Transition Administrator, LLC has contracted with Deloitte Consulting LLP, Squire Patton Boggs (US) LLP, and Baseline Wireless Services, LLC (each a “TA Member” and collectively “TA Members”) to perform the duties of the TA.

³ Improving Public Safety Communications in the 800 MHz Band, *Report and Order*, *Fifth Report and Order*, *Fourth Memorandum Opinion and Order*, and *Order*, 19 FCC Rcd 14969 (2004), *amended by Erratum*, WT Docket No. 02-55 (rel. Sep. 10, 2004); *Second Erratum*, 19 FCC Rcd 19651 (2004); *Third Erratum*, 19 FCC Rcd 21818 (2004)(“Report and Order”); *Supplemental Order and Order on Reconsideration*, 19 FCC Rcd 25120 (2004), *amended by Erratum*, WT Docket No. 02-55 (rel. Jan. 19, 2005); *Memorandum Opinion and Order*, 20 FCC Rcd 16015 (2005); *Second Memorandum Opinion and Order*, 22 FCC Rcd 10467 (2007), *amended by Erratum*, WT Docket No. 02-55 (rel. July 26, 2007); *Third Memorandum Opinion and Order*, 22 FCC Rcd 17209 (2007); *Second Report and Order*, 23 FCC Rcd 7605 (2008), *amended by Erratum*, WT Docket No. 02-55 (rel. May 28, 2008); *Fourth Memorandum Opinion and Order*, 23 FCC Rcd 18512 (2008); *Third Report and Order and Third Further Notice of Proposed Rulemaking*, 25 FCC Rcd 4443 (2010); *Fourth Report and Order*, 26 FCC Rcd 1937 (2011); *Fifth Report and Order*, 28 FCC Rcd 4085 (2013); *Memorandum Opinion and Order and Order of Proposed Modification*, 29 FCC Rcd 11549 (2014)(collectively “Reconfiguration Orders”).

⁴ *Report and Order*, 19 FCC Rcd at 15073, 47 C.F.R. § 90.676(b)(4).

INDEPENDENT AUDITOR'S REPORT

To 800 MHz Transition Administrator, LLC:**Report on the Statement of Program Expenditures**

We have audited the accompanying Statement of Program Expenditures of the 800 MHz Reconfiguration Program (Program) for the year ended December 31, 2014 and for the period from August 6, 2004 (Inception) through December 31, 2014, and the related notes.

Management's Responsibility for the Statement of Program Expenditures

Sprint Corporation ("Sprint") and the 800 MHz Transition Administrator, LLC are responsible for the preparation and fair presentation of the Statement of Program Expenditures in accordance with the cash basis of accounting described in Note II; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the Statement of Program Expenditures in the circumstances. Sprint and the 800 MHz Transition Administrator, LLC are also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the Statement of Program Expenditures that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the Statement of Program Expenditures based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Statement of Program Expenditures is free from material misstatement.

An audit involves performing procedures to obtain evidence supporting the amounts and disclosures in the Statement of Program Expenditures. The procedures selected depend on the auditor's judgment, including an assessment of the risks of material misstatement, whether due to fraud or error, to the Statement of Program Expenditures. In making those risk assessments, the auditor considers internal control relevant to Sprint's and the 800 MHz Transition Administrator, LLC's preparation and fair presentation of the Statement of Program Expenditures in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Sprint's and the 800 MHz Transition Administrator, LLC's internal controls. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Statement of Program Expenditures.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the Statement of Program Expenditures referred to above presents fairly, in all material respects, the Program expenditures of the 800 MHz Reconfiguration Program for the year ended December 31, 2014, and for the period from August 6, 2004 (Inception) through December 31, 2014, on the basis of accounting described in Note II.

Basis of Accounting

We draw attention to Note II of the Statement of Program Expenditures, which describes the basis of accounting. The Statement of Program Expenditures was prepared using the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the accounting requirements of the Program. Our report is not modified with respect to that matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 10, 2015, on our consideration of Sprint's and the 800 MHz Transition Administrator, LLC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and other matters, including the requirements of the Federal Communications Commission *Improving Public Safety Communications in the 800 MHz Band*, Report and Order, Fifth Report and Order, Fourth Memorandum Opinion and Order, and Order, 19 FCC Rcd 14969 (2004), as amended, modified and supplemented. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Sprint's and the 800 MHz Transition Administrator, LLC's internal control over financial reporting and compliance.



Bethesda, Maryland
July 10, 2015

800 MHz RECONFIGURATION
STATEMENT OF PROGRAM EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2014
AND FOR THE PERIOD FROM
AUGUST 6, 2004 (INCEPTION) THROUGH DECEMBER 31, 2014
(in thousands, unless otherwise noted)

	For the Year Ended December 31, 2014	Inception Through December 31, 2014
800 MHz Incumbent Reconfiguration Costs (Note III)	\$ 188,611	\$ 1,136,700
Sprint Costs (Note IV)	9,338	235,034
Letter of Credit Fees (Note V)	20,454	293,485
TA Fees & Expenses (Note VI)	<u>23,869</u>	<u>310,123</u>
Total Program Expenditures	\$ <u>242,272</u>	\$ <u>1,975,342</u>

See Notes to the Statement of Program Expenditures.

800 MHz RECONFIGURATION
NOTES TO THE STATEMENT OF PROGRAM EXPENDITURES
DECEMBER 31, 2014
(in thousands, unless otherwise noted)

I. 800 MHz RECONFIGURATION PROGRAM DESCRIPTION

A. Program Background

The Federal Communications Commission (“FCC”) on August 6, 2004 (“Inception”) ordered the reconfiguration of the 800 MHz band (“800 MHz Reconfiguration” or “Program”) to eliminate interference to critical public safety communications from commercial wireless carriers operating in the band.⁵ In the past, public safety and other “high-site” radio systems – including those used by police, firefighters, emergency services, utilities, and businesses operating in the 806-824 MHz/851-869 MHz band (the “800 MHz band”) – increasingly experienced equipment interference problems and communications “dead zones” as a result of technically incompatible “low-site” commercial wireless systems operating in the same or adjacent spectrum bands. This issue became more problematic as low-site systems such as those of Sprint Corporation (“Sprint”)⁶ grew and high-site 800 MHz public safety systems became more widespread.

In order to alleviate the interference between the two types of systems, the 800 MHz Reconfiguration is relocating certain licensees operating 800 MHz systems (“800 MHz Incumbent Licensees”) to lower segments of the band and commercial cellular networks to higher segments. Additionally, an “Expansion Band” and a “Guard Band” have been created to serve as a buffer between the different systems. The Program is being overseen by a Transition Administrator, the 800 MHz Transition Administrator, LLC (“TA”).

Pursuant to the *Report and Order*, completion of the 800 MHz Reconfiguration was initially required by June 26, 2008. Certain 800 MHz Incumbent Licensees located close to the United States-Canada and the United States-Mexico borders could not reconfigure until the respective countries completed negotiations concerning the coordination of new frequency plans that would permit the licensees within the United States to be relocated to different frequencies. In October 2008, the TA released, and the FCC subsequently adopted, the Canadian Implementation Plan (“CIP”) and timetable for the 800 MHz Reconfiguration along the United States-Canada border. The CIP provided for a 30-month reconfiguration period, starting October 14, 2008 and ending April 14, 2011. Likewise, in April 2013, the FCC adopted a reconfigured channel plan for the 800 MHz band along the United States-Mexico border based on the international allocation of the 800 MHz spectrum that was negotiated by the two countries. In August 2013, the TA released, and the FCC adopted the Mexican Implementation Plan (“MIP”) and timetable for the 800 MHz Reconfiguration along the United States-Mexico border. Similar to the CIP, the MIP provides for a 30-month reconfiguration period, which commenced on August 23, 2013 and is

⁵ *Report and Order*.

⁶ On July, 11, 2013, a wholly-owned subsidiary of Softbank Corporation (“Softbank”) and Sprint Nextel Corporation merged to form Sprint Corporation, making Sprint Corporation a subsidiary of Softbank. Nextel Communications, Inc., Sprint Nextel Corporation, Sprint Corporation, and any subsidiary or successor to any of them are together referred to herein as “Sprint”.

800 MHz RECONFIGURATION
NOTES TO THE STATEMENT OF PROGRAM EXPENDITURES
DECEMBER 31, 2014
(in thousands, unless otherwise noted)

scheduled to end on February 23, 2016.⁷ The FCC has granted and continues to grant certain 800 MHz Incumbent Licensees additional time to complete their reconfigurations.

B. Affected Parties

The primary parties affected by the reconfiguration process include:

1. 800 MHz Incumbent Licensees

The FCC ordered the 800 MHz Incumbent Licensees to relocate their systems to comparable facilities on new frequencies and required Sprint to pay the reasonable and prudent expenses directly related to such relocations. To accomplish this, the 800 MHz Incumbent Licensees and Sprint negotiate and enter into Frequency Reconfiguration Agreements (“FRAs”) and, if needed, Planning Funding Agreements (“PFAs”), (collectively “800 MHz Agreements”).⁸ The TA evaluates and approves the 800 MHz Agreements. In addition, at the completion of each reconfiguration the TA evaluates the amounts expended to provide reasonable assurance that those amounts are consistent with TA-approved amounts.

2. Sprint

Sprint is charged by the FCC with funding 800 MHz Reconfiguration expenditures, including relocation costs of affected licensees, costs of reconfiguring many of Sprint’s own 800 MHz operations, and other Program expenditures, such as TA and audit fees. To ensure reconfiguration of all affected licensees is completed, the FCC initially required Sprint to obtain an irrevocable letter of credit (“Letter of Credit”) in the amount of \$2.5 billion and commit to fully funding the 800 MHz Reconfiguration. The amount of the Letter of Credit has been subsequently reduced for amounts paid by Sprint for costs to accomplish the relocation while also taking into account the then-current forecast of remaining costs to complete the 800 MHz Reconfiguration.

In addition, Sprint has received spectrum in the 1.9 GHz band and has relinquished spectrum in the 800 MHz band. At the culmination of reconfiguration, the FCC will make available to qualified entities the channels in the 800 MHz band surrendered by Sprint. To ensure that Sprint does not realize any windfall gain, the FCC will require Sprint to pay into the U.S. Treasury an amount equal to the value of the 1.9 GHz spectrum it received (\$4.86 billion) less the sum of: i) the net value of spectrum rights that Sprint has relinquished to 800 MHz band licensees (\$2.059 billion); ii) the actual cost of 800 MHz band reconfiguration (“800 MHz Reconfiguration

⁷ See 800 MHz Transition Administrator, LLC, “Reconfiguration Timetable for the Reconfiguration of the 800 MHz Band in the Sharing Zone and Affected NPSPAC Regions Along the United States-Mexico Border,” WT Docket No. 02-55 (filed Aug. 6, 2013).

⁸ 800 MHz Agreements includes any subsequent amendments.

800 MHz RECONFIGURATION
NOTES TO THE STATEMENT OF PROGRAM EXPENDITURES
DECEMBER 31, 2014
(in thousands, unless otherwise noted)

Program Expenditures”); and iii) net costs incurred by Sprint to clear the 1.9 GHz band, (the “Anti-Windfall Payment”).

3. 800 MHz Transition Administrator, LLC (“TA”)

The TA is an independent entity charged with administrative and financial aspects of the reconfiguration process and is a wholly-owned subsidiary of Baseline Wireless Services, LLC.⁹ The TA contracted with Deloitte Consulting LLP, Squire Patton Boggs (US) LLP and Baseline Wireless Services, LLC to perform the duties of the TA. Among its duties, the TA establishes reconfiguration guidelines, specifies replacement channels, evaluates cost estimates, monitors payment of and evaluates 800 MHz licensee reconfiguration costs, assesses Sprint internal costs of relocation, manages the relocation schedule, facilitates issue resolution and administers the alternative dispute resolution process.

II. SIGNIFICANT ACCOUNTING PRINCIPLES

A. Final Accounting, Scope of 800 MHz Reconfiguration Statement of Program Expenditures and Basis of Accounting

The *Report and Order* originally provided that the Program would be completed by June 28, 2008, with a financial reconciliation or “Final Accounting” completed within six months thereafter to determine the amount of any Anti-Windfall Payment. As of October 1, 2014, the FCC deferred the Final Accounting until the conclusion of the 800 MHz Reconfiguration or such time as the TA determines that Sprint would not be required to pay any Anti-Windfall Payment.

The scope of the Statement of Program Expenditures is limited to 800 MHz Reconfiguration Program Expenditures: i) that have been submitted by Sprint to the TA for assessment and ii) assessed by the TA as allowable 800 MHz Reconfiguration Program Expenditures in accordance with the *Report and Order* (“Creditable Expenditures”). Additionally, there are certain expenditures submitted by Sprint that have been excluded from the Statement of Program Expenditures because more information is needed from Sprint and/or certain 800 MHz Incumbent Licensees in order for the TA to complete its assessment. In addition, there are certain expenditures Sprint has not yet submitted to the TA for credit assessment. Expenditures submitted but open for more information or not yet submitted, may ultimately be assessed as

⁹ Prior to May 8, 2009, the TA was a wholly-owned subsidiary of BearingPoint, Inc. The TA originally contracted with BearingPoint, Inc., Squire Sanders and Dempsey LLP and Baseline Wireless Services, LLC to perform the duties of the TA. Squire, Sanders and Dempsey L.L.P subsequently changed its name to Squire Sanders (US) LLP and ultimately to Squire Patton Boggs (US) LLP. As of May 8, 2009, Deloitte Consulting LLP, a subsidiary of Deloitte LLP, has replaced BearingPoint, Inc. as a contractor to the TA and, as a result, has assumed BearingPoint, Inc.’s responsibilities with respect to the Program. On May 20, 2009, the FCC approved the transfer of ownership of the TA to Baseline Wireless Services, LLC. The ownership transfer was made the same day. Improving Public Safety Communications in the 800 MHz Band, WT Docket No. 02-55, *Order*, 24 FCC Rcd 5739 (2009).

800 MHz RECONFIGURATION
NOTES TO THE STATEMENT OF PROGRAM EXPENDITURES
DECEMBER 31, 2014
(in thousands, unless otherwise noted)

Creditable Expenditures during a subsequent reporting period (See Notes VII and VIII). The Statement of Program Expenditures also excludes costs incurred by Sprint to clear the 1.9 GHz band, less any amounts reimbursed to Sprint. In accordance with the *Report and Order*, such costs are maintained by Sprint and are required to be audited on an annual basis.

The Statement of Program Expenditures represents Creditable Expenditures presented on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

B. 800 MHz Incumbent Reconfiguration Costs

The 800 MHz Incumbent Reconfiguration Costs include Sprint payments:

- to 800 MHz Incumbent Licensees or their vendors in accordance with the 800 MHz Agreements (“800 MHz Licensee Costs”); and
- for 800 MHz Incumbent Licensee subscriber equipment that requires either a software upgrade or replacement in order to complete the reconfiguration (“800 MHz Replacement Equipment Costs”).

The 800 MHz Licensee Costs include Sprint payments for:

- actual costs pursuant to 800 MHz Agreements that have closed (“Closed Agreements”);
- actual costs pursuant to 800 MHz Agreements that have not yet closed but i) where the system has cutover to the new frequencies and ii) the required licensing modifications to add new frequencies and delete old frequencies have been granted (“Open Agreements - FCC Licensing Completed”).¹⁰
- advance payments pursuant to 800 MHz Agreements: i) that have not yet closed; ii) where the system has cutover to the new frequencies and iii) the required licensing modifications to add new frequencies and delete old frequencies have not been granted (“Open Agreements - FCC Licensing Pending”); and

¹⁰ See, e.g., WT Docket No. 02-55, *Memorandum Opinion and Order and Order of Proposed Modification*, 29 FCC Rcd 11549 (2014). The FCC directed the TA to conduct an assessment of Sprint’s expenditures and supporting documentation provided by the parties for reconfigurations where the system cutover to new frequencies has occurred and the required licensing modifications to add new frequencies and delete old frequencies have been granted. For the period ended December 31, 2013 and the period of Inception through December 31, 2013, the TA classified 800 MHz Licensee Costs as “Closed Agreements” and “Open Agreements.” As a result of the FCC’s guidance, for the period ended December 31, 2014, expenditures that were previously classified as “Open Agreements” are now categorized as either “Open Agreements - FCC Licensing Pending” or “Open Agreements - FCC Licensing Completed.” See Note III.

800 MHz RECONFIGURATION
NOTES TO THE STATEMENT OF PROGRAM EXPENDITURES
DECEMBER 31, 2014
(in thousands, unless otherwise noted)

- sales and use taxes, FCC filing fees and certain other costs Sprint is required to pay under the terms of the 800 MHz Agreements.

Pursuant to the 800 MHz Agreements, prior to closing the 800 MHz Incumbent Licensees are required to provide Sprint with the supporting documentation for their costs incurred in reconfiguration. Sprint and 800 MHz Incumbent Licensees are also required to reconcile the estimated costs included in the 800 MHz Agreements to the actual costs supported (“Actual Costs”) to determine any additional amounts due to the 800 MHz Incumbent Licensees or any refund due to Sprint (the “Actual Cost Reconciliation Process”). Certain payment terms included in the 800 MHz Agreements require Sprint to make advanced payments prior to the completion of the Actual Cost Reconciliation Process.

The 800 MHz Replacement Equipment Costs relate to expenditures for:

- development of software for certain 800 MHz Incumbent Licensee subscriber equipment that enables such subscriber equipment to be retuned rather than replaced and the related software upgrade kits included in 800 MHz Agreements; and
- replacement equipment for certain 800 MHz Incumbent Licensee subscriber and infrastructure equipment that cannot be retuned to be provided by Sprint pursuant to such 800 MHz Agreements.

The scope of the 800 MHz Incumbent Reconfiguration Costs reflected in the Statement of Program Expenditures is limited, and, accordingly, these amounts do not include all of the 800 MHz Incumbent Reconfiguration Costs incurred through December 31, 2014 that may ultimately be assessed as Creditable Expenditures during a subsequent reporting period (See II.A. above).

C. Sprint Costs

Sprint Costs reflect expenditures by Sprint for:

- Program Expenditures such as: i) 800 MHz Incumbent Licensee negotiation costs for broker and legal fees; ii) systems development costs to support tracking and reporting of 800 MHz Reconfiguration activity and expenditures; and iii) Sprint’s program and financial management costs, such as fees related to Sprint legal, management and coordination support, financial management and audit expenditures, and other program costs incurred by Sprint (“Program Costs”); and
- the reconfiguration of Sprint’s systems in the 800 MHz band, such as installing improved filters in Sprint’s 800 MHz base station transmitters and relocating Sprint operations to new channels (“Internal Network Costs”).

800 MHz RECONFIGURATION
NOTES TO THE STATEMENT OF PROGRAM EXPENDITURES
DECEMBER 31, 2014
(in thousands, unless otherwise noted)

The scope of the Sprint Costs reflected in the Statement of Program Expenditures is limited, and, accordingly, these amounts do not include all of the Sprint Costs incurred through December 31, 2014 that may ultimately be assessed as Creditable Expenditures during a subsequent reporting period (See II.A. above).

D. Letter of Credit Fees

Letter of Credit Fees reflect the costs of the Letter of Credit maintained by Sprint as security for payment of 800 MHz Incumbent Reconfiguration Costs. The Letter of Credit is scheduled to expire on February 19, 2018. The TA may initiate draws on the Letter of Credit to pay 800 MHz Incumbent Licensees or their vendors in the event that Sprint fails to make payment within 30 days of a payment obligation date and fails to demonstrate good cause for non-payment within 40 days of a payment obligation date. The initial amount of the Letter of Credit was established at \$2.5 billion and may be reduced over the life of the Program, as Sprint's remaining payment obligations related to 800 MHz Incumbent Reconfiguration Costs are reduced.

On September 17, 2014, in response to a Petition for Declaratory Ruling filed by Sprint, the FCC proposed to modify a condition on Sprint's licenses to eliminate the original \$850 million floor on the Letter of Credit. In addition, the FCC directed that once the proposed license modification became effective the Letter of Credit balance should be reduced to \$457 million.¹¹ On October 1, 2014, the condition on Sprint's licenses regarding the Letter of Credit was modified and the Letter of Credit was subsequently reduced to \$457 million.¹² On December 18, 2014, the TA recommended that the Letter of Credit be further reduced by \$22.6 million based on costs paid through September 30, 2014. The FCC concurred with the TA's request on December 22, 2014, and the Letter of Credit was reduced to \$434.4 million.

Letter of Credit Fees are governed by the credit agreement, as may be amended from time to time, that Sprint has entered into with its banks. As of December 31, 2014, the Letter of Credit costs accrue daily based on the Letter of Credit exposure, defined as the sum of: i) the undrawn amount of the outstanding Letter of Credit, plus ii) the aggregate amount of all disbursements made pursuant to the Letter of Credit not reimbursed by Sprint.

¹¹ See Sprint Nextel Corporation, Petition for Declaratory Ruling, WT Docket No. 02-55, *Memorandum Opinion and Order and Order of Proposed Modification*, 29 FCC Rcd 11549 (2014) ("October 2014 Order").

¹² See Sprint Nextel Corporation, Petition for Declaratory Ruling, WT Docket No. 02-55, *Order of Modification*, 29 FCC Rcd 11689, 11690 ¶ 5 (2014).

800 MHz RECONFIGURATION
NOTES TO THE STATEMENT OF PROGRAM EXPENDITURES
DECEMBER 31, 2014
(in thousands, unless otherwise noted)

As of December 31, 2014, Letter of Credit Fees are comprised of the following fees:

Type of Fee	Percentage Range Inception through December 31, 2014		As of December 31, 2014
	Low	High	
Fronting Fee	0.10% per annum	0.25% per annum	0.15% per annum
Participation Fee	0.30% per annum	4.00% per annum	3.00% per annum
Facility Fee ¹³	0.10% per annum	0.15% per annum	N/A

The participation fee varies depending on Sprint's corporate credit rating, as published by Standard & Poor's Rating Services and Moody's Investors Service, Inc.

E. 800 MHz Transition Administrator Fees & Expenses

TA Fees are billed in accordance with the TA's agreements with Sprint. Labor is billed at contractually agreed hourly rates and reasonable costs and expenses, including travel, are billed as incurred (See Note VI).

¹³ As of November 3, 2008, pursuant to an amendment of the credit facility between Sprint and its banks, the Facility Fee was terminated.

800 MHz RECONFIGURATION
NOTES TO THE STATEMENT OF PROGRAM EXPENDITURES
DECEMBER 31, 2014
(in thousands, unless otherwise noted)

III. 800 MHz INCUMBENT RECONFIGURATION COSTS

Total 800 MHz Incumbent Reconfiguration Costs are as follows:

	For the Year Ended December 31, 2014	Inception Through December 31, 2014
Closed Agreements	\$ 73,220	\$ 334,294
Open Agreements - FCC Licensing Completed	272,519	272,519
Open Agreements - FCC Licensing Pending ¹⁴	<u>(242,698)</u>	<u>333,797</u>
800 MHz Licensee Costs	103,041	940,610
800 MHz Replacement Equipment Costs	<u>85,570</u>	<u>196,090</u>
800 MHz Incumbent Reconfiguration Costs	<u>\$ 188,611</u>	<u>\$ 1,136,700</u>

For the year ended December 31, 2014 and for the period of Inception through December 31, 2014, the TA reclassified previously reported "Open Agreements" as either Open Agreements-FCC Licensing Pending or Open Agreements - FCC Licensing Completed, as a result of the FCC's October 2014 Order. Absent such reclassification, Open Agreements would have been \$29,821 for the year ended December 31, 2014 as compared to \$22,198 for the year ended December 31, 2013 and \$606,316 for the period of Inception through December 31, 2014 as compared to \$576,495 for the period of Inception through December 31, 2013.

The amounts submitted to the TA for 800 MHz Replacement Equipment Costs and 800 MHz Licensee Costs, net of Amounts Open for More Information to Allow Credit Assessment (See Note VII), for the year ended December 31, 2014 included \$33,370 paid to Motorola and \$9,174 paid to Harris Corporation. Additionally, the amounts for the period of Inception through December 31, 2014 included \$379,681 paid to Motorola, \$68,009 paid to Harris Corporation and \$8,689 paid to M/A-COM, Inc., which was acquired by Harris Corporation on April 16, 2009.

¹⁴ Open Agreements – FCC Licensing Pending represents the TA's estimate of advance payments and payments for actual costs incurred made by Sprint that will be 800 MHz Reconfiguration Program Expenditures upon: i) system cutover to the new frequencies; ii) grant of the required license modifications to add the new frequencies and delete old frequencies; and iii) closing of the 800 MHz Contract Agreement. Accounting estimates are subject to inherent risk, and actual results could differ.

800 MHz RECONFIGURATION
NOTES TO THE STATEMENT OF PROGRAM EXPENDITURES
DECEMBER 31, 2014
(in thousands, unless otherwise noted)

Total 800 MHz Agreements as adjusted to reflect Actual Costs, and 800 MHz Licensee Costs are as follows:

	For the Year Ended December 31, 2014	Inception Through December 31, 2014
Planning Funding Agreements	\$ (863)	\$ 99,787
Frequency Reconfiguration Agreements	<u>53,312</u>	<u>1,090,884</u>
Total 800 MHz Agreements	52,449	1,190,671
Less: 800 MHz Licensee Costs	<u>103,041</u>	<u>940,610</u>
800 MHz Licensee Costs available to be Included in a Subsequent Statement of Program Expenditures ¹⁵	<u>\$ (50,592)</u>	<u>\$ 250,061</u>

The 800 MHz Incumbent Reconfiguration Costs amounts do not include all of the 800 MHz Incumbent Reconfiguration Costs incurred through December 31, 2014. Sprint may ultimately submit to the TA additional amounts to be assessed as Creditable Expenditures during a subsequent reporting period (See Note II).

¹⁵ 800 MHz Licensee Costs include payments for 800 MHz Agreements, as adjusted to reflect TA-approved Actual Costs from Inception Through December 31, 2014. For the Year Ended December 31, 2014, 800 MHz Licensee Costs are greater than the Total 800 MHz Agreements, because all costs are generally not incurred in the same year that an Executed Agreement is approved by the TA.

800 MHz RECONFIGURATION
NOTES TO THE STATEMENT OF PROGRAM EXPENDITURES
DECEMBER 31, 2014
(in thousands, unless otherwise noted)

IV. SPRINT COSTS

Total Sprint Costs are as follows:

	For the Year Ended December 31, 2014	Inception Through December 31, 2014
Program Costs	\$ 9,338	\$ 111,470
Internal Network Costs	-	123,564
Sprint Costs	<u>\$ 9,338</u>	<u>\$ 235,034</u>

The scope of the Sprint Costs reflected in the Statement of Program Expenditures is limited, and, accordingly, these amounts do not include all of the Sprint Costs incurred through December 31, 2014, which may ultimately be assessed as Creditable Expenditures during a subsequent reporting period (See Note II).

V. LETTER OF CREDIT FEES

At December 31, 2014 and December 31, 2013, the balance of the Letter of Credit was \$434.4 million and \$850 million, respectively. Through December 31, 2014, there were no draws or disbursements on the Letter of Credit. Letter of Credit Fees paid by Sprint for the year ended December 31, 2014 and for the period of Inception through December 31, 2014 are \$20,454 and \$293,485, respectively.¹⁶

VI. 800 MHz TRANSITION ADMINISTRATOR FEES AND EXPENSES

Fees for labor hours and expenses of the TA paid by Sprint for the year ended December 31, 2014 and for the period of Inception through December 31, 2014 are \$23,869 and \$310,123, respectively.

¹⁶ On October 1, 2014, the PSHSB released an Order of Modification in which it ordered the modification of Sprint's licenses to modify a condition on the licenses regarding the Letter of Credit. The Letter of Credit was subsequently reduced to \$457 million. On December 18, 2014, the TA recommended that the Letter of Credit be further reduced by \$22.6 million based on costs paid through September 30, 2014. The FCC concurred with the TA's request on December 22, 2014, and the Letter of Credit was reduced from \$457 million to \$434.4 million.

800 MHz RECONFIGURATION
NOTES TO THE STATEMENT OF PROGRAM EXPENDITURES
DECEMBER 31, 2014
(in thousands, unless otherwise noted)

VII. SUBMITTED PROGRAM EXPENDITURES (Unaudited)

The 800 MHz Reconfiguration Program Expenditures are limited to those amounts: i) submitted by Sprint for TA assessment and ii) assessed by the TA as allowable 800 MHz Reconfiguration

Program Expenditures (See Note II). In certain circumstances, the TA requires additional information in order to allow the TA to complete the credit assessment. As of December 31, 2014, expenditures submitted for credit and assessed as creditable or open for additional information are as follows:

	Expenditures Submitted for Credit Assessment		Amounts Assessed as Creditable Expenditures		Amounts Open for More Information to Allow Credit Assessment
800 MHz Incumbent Reconfiguration Costs	\$	1,820,269	\$	1,136,700	\$ 683,569
Sprint Costs		304,560		235,034	69,526
Letter of Credit Fees		293,485		293,485	-
TA Fees & Expenses		310,123		310,123	-
Total Costs Submitted	\$	<u>2,728,437</u>	\$	<u>1,975,342</u>	\$ <u>753,095</u>

800 MHz Incumbent Reconfiguration Costs classified as “Amounts Open for More Information to Allow Credit Assessment” include \$512,870 related to 800 MHz Equipment Costs and \$21,126 related to 800 MHz Licensee Costs where additional information is needed from Sprint and/or 800 MHz Licensees.

800 MHz RECONFIGURATION
NOTES TO THE STATEMENT OF PROGRAM EXPENDITURES
DECEMBER 31, 2014
(in thousands, unless otherwise noted)

VIII. TO BE SUBMITTED PROGRAM EXPENDITURES (Unaudited)

The 800 MHz Incumbent Reconfiguration Costs do not include all of the 800 MHz Incumbent Reconfiguration Costs incurred through December 31, 2014 that may ultimately be submitted by Sprint to the TA and assessed as Creditable Expenditures during a subsequent reporting period (See Note II).

Costs are to be included in a subsequent Statement of Program Expenditures when: i) such costs have been paid, submitted by Sprint for credit assessment, and determined by the TA to be Creditable Expenditures, or ii) once the TA has received and evaluated the additional information requested in order to allow credit assessment are as follows:

800 MHz Licensee Costs to be Included in a Subsequent Statement of Program Expenditures	\$ 250,061
Less:	
800 MHz Licensee Costs Submitted for Credit but Classified as Open for More Information to Allow Credit Assessment	<u>21,126</u>
800 MHz Licensee Costs Not yet Paid or Submitted for Credit, Subject to the Actual Cost Reconciliation Process	228,935
Letter of Credit Fees Incurred but Not yet Paid	38
TA Fees & Expenses Incurred but Not yet Paid	<u>2,509</u>
Total Costs to be Included in a Subsequent Statement of Program Expenditures, Pending Assessment as Creditable Expenditures	\$ <u><u>231,482</u></u>

800 MHz RECONFIGURATION
NOTES TO THE STATEMENT OF PROGRAM EXPENDITURES
DECEMBER 31, 2014
(in thousands, unless otherwise noted)

Sprint estimated expenditures reported to the TA and available to be submitted to the TA for credit assessment in a subsequent period (“Estimated – To Be Submitted Costs”) are as follows:

	Inception Through December 31, 2014
800 MHz Replacement Equipment Costs	\$ 48,626
Sprint Costs	<u>67,579</u>
Estimated – To Be Submitted Costs	<u>\$ 116,205</u>

The estimated 800 MHz Replacement Equipment Costs primarily relate to equipment purchased pursuant to fulfillment agreements entered into between Sprint and various manufacturers that is expected to be used in fulfillment of certain replacement equipment under the terms of 800 MHz Agreements.

The estimated Sprint Costs include \$24,843 for Internal Network Costs and \$42,736 for Program Costs. These estimated amounts may be subject to change, and the actual expenditures submitted for credit assessment in the future could be more or less than estimated. These amounts are the best estimates as of December 31, 2014, given the known events and circumstances at this point in time.

During the period from Inception through December 31, 2014, Sprint has advised the TA that it has incurred certain costs related to Sprint’s Internal Network that Sprint may submit for credit at a later date (“To Be Determined Sprint Costs”). These costs relate to internal labor costs, program costs and amounts paid to Sprint’s vendors and may be significant, but cannot be reasonably estimated at this time.

Sprint has advised the TA that it is unable to estimate when the Estimated - To Be Submitted Costs and the To Be Determined Sprint Costs (collectively, “To Be Submitted Costs”) will be submitted for credit. Ultimately, some of these costs may not be submitted for credit if submitted costs are such that no Anti-Windfall Payment is due.

The TA will assess the To Be Submitted Costs when Sprint submits these costs, together with supporting documentation, for TA evaluation. The To Be Submitted Costs and any amounts classified as open for more information to allow credit assessment that are determined by the TA to be Creditable Expenditures will be included in a subsequent audited Statement of Program Expenditures.

800 MHz RECONFIGURATION
NOTES TO THE STATEMENT OF PROGRAM EXPENDITURES
DECEMBER 31, 2014
(in thousands, unless otherwise noted)

IX. SUBSEQUENT EVENTS

Events that occur after December 31, 2014, but before the Statement of Program Expenditures was issued or available to be issued, must be evaluated for recognition or disclosure. All activity of the Program through July 10, 2015 (the date the Statement of Program Expenditures was available to be issued) was evaluated and the following subsequent event that requires disclosure was identified. No subsequent events have occurred that require recognition in the Statement of Program Expenditures or disclosure in the notes thereto.

A. Letter of Credit Fees

At December 31, 2014 and December 31, 2013, the amount of the Letter of Credit was \$434.4 million and \$850.0 million, respectively. On March 16, 2015, the amount of the Letter of Credit was reduced to \$406.0 million, and on June 19, 2015 the amount of the Letter of Credit was reduced to \$376.2 million.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

To 800 MHz Transition Administrator, LLC:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Statement of Program Expenditures of the 800 MHz Reconfiguration Program (Program) for the year ended December 31, 2014, and for the period from August 6, 2004 (Inception) through December 31, 2014, and have issued our report thereon dated July 10, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the Statement of Program Expenditures, we considered Sprint Corporation's ("Sprint") and the 800 MHz Transition Administrator, LLC's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the Statement of Program Expenditures, but not for the purpose of expressing an opinion on the effectiveness of Sprint's and the 800 MHz Transition Administrator, LLC's internal control. Accordingly, we do not express an opinion on the effectiveness of Sprint's and the 800 MHz Transition Administrator, LLC's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Statement of Program Expenditures is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, including the Federal Communications Commission *Improving Public Safety Communications in the 800 MHz Band*, Report and Order, Fifth Report and Order, Fourth Memorandum Opinion and Order, and Order, 19 FCC Rcd 14969 (2004), as amended, modified and supplemented, noncompliance with which could have a direct and material effect on the determination of Program expenditures. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Sprint's and the 800 MHz Transition Administrator, LLC's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Sprint's and the 800 MHz Transition Administrator, LLC's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "CohnReznick LLP". The signature is written in a cursive, flowing style.

Bethesda, Maryland
July 10, 2015